



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.70.1

March 7, 2003
03-PPD-020(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Audit of Contractor Compliance with Contract Billing Instructions

Summary

During FY 2003, Field Audit Offices (FAOs) will perform audits at all major contractors to verify that billings on recently awarded DoD contracts are prepared in accordance with the contract's billing instructions. FAOs should request major contractors to provide a list of all contracts (both cost type and fixed price) awarded over the last 18 months. FAOs will select three large value DoD contracts from the listing and verify that billings on these contracts comply with the billing instructions included in Section G of the contract provisions. FAOs should apply the procedures included in Attachment 1 when performing these audits.

The audit effort for these audits should be performed under DMIS Activity Code 17390. FAOs may establish separate assignments to audit each of the three contracts, or establish one assignment to audit all three contracts. The contract numbers audited in the assignment should be entered into the DMIS assignment description data field. FAOs should use zero-based budgeting to establish the budgeted hours; however, it is anticipated that the average audit effort to audit compliance with billing instructions should be about 24-32 hours for each contract. If significant additional hours are required, FAOs should coordinate that effort with their regional task force member prior to expending the additional hours.

Background

DoD has undertaken several initiatives to improve billing and payment instructions in contracts. Section G of the contract entitled "Contract Administration Data" includes both billing and payment instructions. Contracts with appropriate billing and payment instructions, and contractor compliance with the billing instructions, will expedite and facilitate proper payment.

SUBJECT: Audit Guidance on Audit of Contractor Compliance with Contract Billing Instructions

Billing instructions, also called invoicing instructions, identify how the contractor will bill (e.g., bureau voucher notice (BVN), progress payment, DD 250, and commercial invoice). If a contract line item number (CLIN) is going to be funded by more than one fund citation (i.e., accounting classification reference number or ACRN), Section G of the contract will normally include instructions for the order of disbursement. Billing instructions tell the contractor what information is required on billings and where the billings should be submitted for proper and timely payment. Specific items that are normally addressed in the billing instructions include:

- Identification of billed costs by CLIN or Sub Line Item Number (SLIN)
- Identification of billed costs by ACRN
- Payment terms

Payment instructions inform the paying office how to make payments and should permit the paying office to charge the ACRN in a manner that reflects the performance of work. They also should be consistent with the billing instructions.

Audit Guidance

Current audit guidance requires auditors to verify that contractors are complying with contract billing instructions. CAM Sections 5-1107.2, 5-1107.3, and 5-1108.3 discuss the requirements of contractor procedures and controls that should be present to appropriately bill costs in accordance with specific contract provisions. The 11010 Billing System Audit Program (Steps G.1.a, H.1.b and I.3) also provides the following guidance:

- Step G.1.a. – The contractor should have policies and procedures for monitoring of the billing process, including regular compliance reviews, to ensure that billing requests are in accordance with applicable regulations, contract provisions, and related contractor policies and procedures.
- Step H.1.b. – Review the contractor's written policies and procedures and assess their adequacy for briefing contracts to identify and document billing requirements, including all modifications, and updating the briefs or subsequent contract changes accordingly.
- Step I.3. – Selectively compare the contractor's contract briefings to the applicable contracts and billings to determine if the contracts were adequately briefed and that the contractor reflects unique contract requirements in their billings.

During FY 2003, FAOs will perform audits at all major contractors to verify that billings on recently awarded DoD contracts are prepared in accordance with contract billing instructions. FAOs should request major contractors to provide a list of all contracts (both cost type and fixed price) awarded over the last 18 months. FAOs will select three large value DoD contracts from the listing and verify that billings on these contracts comply with billing instructions included in Section G of the contract provisions.

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FAOs should apply the procedures included in Enclosure 1 when performing these audits. However, consideration should be given to any prior recent audit work that accomplished any of the steps in the attached audit program to avoid any unnecessary duplication of audit work.

Upon completion of the audits, a separate memorandum will be issued to the Administrative Contracting Officer (ACO) for each contract selected. The memorandum will advise the ACO as to whether the contractor is in compliance or noncompliance with the contract billing instructions. Pro forma memoranda are included in Enclosure 2 (Memorandum 1 – contractor is compliant; Memorandum 2 – contractor is not compliant). The results of the audit should be provided to the contractor prior to issuance to obtain comments on factual matters. If significant internal control deficiencies are found, consider issuing a flash internal control report or memorandum to the contractor and contracting officer to facilitate immediate corrective action of the deficiencies. Any suggestions for improvement can also be discussed with the contractor and included in the memorandum issued to the contracting officer. Consider the impact of the internal control deficiencies on the adequacy of the contractor's billing system and direct billing status. Provide copies of the ACO memorandum and related correspondence and reports to the regional task force member listed below.

Upon completion of the audit, the auditor will forward copies of the billing and payment instructions from Section G of the contract for the contracts reviewed to the regional task force member. The regional task force member will review the instructions and provide any needed suggestions for improvement to the appropriate administrative and procurement officials.

The audit effort for these audits should be performed under DMIS Activity Code 17390. Currently APPS does not include the audit program for this effort. The Code 17900 "Other" shell program should be opened, the audit steps contained in Enclosure 1 should be "cut and pasted" into the shell program and renamed as a Code 17390 assignment. FAOs may establish separate assignments to audit each of the three contracts, or establish one assignment to audit all three contracts. The contract numbers audited in the assignment should be entered into the DMIS assignment description field. FAOs should use zero-based budgeting to establish the budgeted hours; however, the average audit effort to audit compliance with billing instructions should be about 24-32 hours for each contract. If significant additional hours are required, FAOs should coordinate that effort with their regional task force member prior to expending the additional hours.

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Closing Remarks

FAOs should direct any questions regarding this memorandum to the regional task force member. Regional staff with questions should contact the Headquarters Program Manager, Ms. Patrice Beauchemin at (703)767-2270 or via email at patrice.beauchemin@dcaa.mil. The following are the regional task force members and contact numbers:

| | | | |
|------------------------|-----------------|----------------|--------------------------|
| Central Region | Jody Niebruegge | (314) 233-6712 | jody.niebruegge@dcaa.mil |
| Eastern Region | Daphne Cable | (770) 319-4493 | daphne.cable@dcaa.mil |
| Mid-Atlantic Region | Art Ruggia | (856) 727-5795 | art.ruggia@dcaa.mil |
| Northeastern Region | Paul Catanzano | (978) 551-9811 | paul.catanzano@dcaa.mil |
| Western Region | Bill French | (626) 918-5922 | bill.french@dcaa.mil |
| Field Detachment | David White | (703) 227-9065 | david.white@dcaa.mil |
| DFAS Financial Advisor | Joe Beaumariage | (614) 693-7987 | joe.beaumariage@dcaa.mil |

/Signed/

Robert DiMucci
Assistant Director
Policy and Plans

Enclosures (2)

1. 17390 - Audit Program for Contractor Compliance with Billing Instructions
2. 17390 - Pro forma Memorandums to Administrative Contracting Officer

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| B-1 | Planning Considerations |
| Purpose and Scope: To verify that the contractor's billings are prepared in accordance with contract billing instructions. | |
| The major objectives of this audit are to: | |
| <ul style="list-style-type: none"> • Verify that the contractor has procedures and internal controls to ensure that contracts are reviewed to identify all billing requirements and that these requirements are documented either in a contract brief and/or directly input into an automated system | |
| <ul style="list-style-type: none"> • Verify that contractor management reviews and approves billings prior to submission to ensure compliance with contract billing requirements | |
| <ul style="list-style-type: none"> • Selectively review billings to verify compliance with contract requirements | |
| References | |
| <ol style="list-style-type: none"> 1. CAM 5-1107.2 – Contract Briefings 2. CAM 5-1107.3 – Management Review and Approval 3. CAM 5-1108.3 – Briefing Contract Requirements 4. 11010 Billing System Audit Program | |

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| B-1 | Preliminary Steps | |
| | | WP Reference |
| 1. Research and Planning | | |
| a. Review permanent files to obtain current contract listing, and determine and document prior audit work relating to contractor compliance with contract billing instructions. Consider this information when performing the audit steps. | | |
| 2. Entrance Conference and Preparation | | |
| a. Conduct an entrance conference as outlined in CAM 4-302, with particular emphasis on: | | |
| (1) Purpose of Audit. Explain to the contractor that this audit is intended to verify that the contractor has billing procedures and internal controls in place to: | | |
| (a) brief contracts, | | |

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| (b) identify billing instructions in Section G of the contract, and | |
| (c) ensure billings are prepared in accordance with these instructions. | |
| (2) Request the contractor to provide a listing of all contracts (both cost type and fixed price) awarded over the last 18 months (the contract listing should include such information as contract number, contract value, contract type, and contract period of performance). | |
| (3) Request the contractor to provide and explain its procedures for briefing contracts to identify billing instructions in Section G and ensuring billings are prepared in accordance with these instructions. | |
| 3. Other Preliminary Steps | |
| a. Meet with the Administrative Contracting Officer (ACO) to discuss the objectives of the audit for verifying contractor compliance with contract billing instructions. | |
| (1) Verify that the contractor listing of contracts awarded over the last 18 months is complete (obtained in B-1, step 2) | |
| (2) Determine if the ACO would like any specific contract to be included in the audit (obtain contract number and ACO reasons for review). | |
| 4. Initial Risk Assessment | |
| a. Using the contractor's listing of contracts awarded over the last 18 months and considering the ACO's input, select 3 large value DoD contracts to review the contractor's compliance with billing instructions. | |
| b. Consider the information obtained from permanent files in the research and planning section B-1, step 1, and tailor the detailed audit steps accordingly | |

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| C-1 | Contractor Compliance with Billing Instructions | |
| | | WP Reference |
| 1. | Review contractor's written policy and procedures and assess their | |

Master Document
Activity Code 17390
Contractor Compliance with Billing Instructions
Version 1.0, dated February 2003

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| adequacy for ensuring billings are prepared in accordance with those instructions. | |
| a. Review the contractor's briefs of the contract to determine if billing instructions included in Section G of the contract were identified and documented (the briefing should include all contract modifications issued up to the current date). | |
| b. Review the contract to identify the billing instructions in Section G of the contract (including all modifications issued up to the current date) and determine if the contractor's brief is accurate and complete. | |
| c. Verify that the contract billing instructions have been incorporated into the contractor's automated billing system used to process billings. | |
| 2. Make copies of the billing and payment instructions in Section G of the contract to include in the working papers (see concluding steps in A-1, step 1.e). | |
| 3. Selectively review billings on the audited contracts to verify compliance with the contract billing instructions. | |

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| A-1 | Concluding Steps | |
| | | WP Reference |
| 1. Summary Steps | | |
| a. Summarize and discuss the results of audit with the Supervisory Auditor and perform any other audit effort required. | | |
| b. Prepare a memorandum to the ACO to document the audit results and the contract billing instructions. Pro forma memoranda are provided as 17390 – Pro forma Memoranda. If significant deficiencies or suggestions for improvement are found, consider issuing a flash internal control report or memorandum to the contractor and contracting officer to facilitate immediate corrective action of the deficiencies and implementation of the suggestions. Consider the impact of the deficiencies on the adequacy of the contractor's billing system and direct billing status. | | |
| c. Conduct an exit conference with the contractor in accordance with CAM 4-304, including providing the contractor comments on | | |

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| factual matters such as data accuracy, internal control deficiencies, and suggestions for improvement. | |
| d. After obtaining the contractor's comments, incorporate them into the ACO memorandum. Incorporate the contractor's comments and/or corrective actions on significant deficiencies in the flash internal control reports and other memoranda (as applicable). Copies of the final ACO memorandum, flash internal control report, and other related memoranda should be provided to the regional task force member. | |
| e. Provide copies of the billing and payment instructions obtained in C-1, step 2, above to the regional task force member. | |
| f. Update permanent file in accordance with CAM 4-405.1 | |
| 2. Closing Actions | |
| Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include: | |
| a. Once the memorandum is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention "01 DCAA Memo [RORG_ASSIGNMENT NO.] – Final.doc" and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. | |
| b. Once the memorandum is signed, the signature page of the memorandum must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with "-sig" added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.tif). There is no requirement to make the file a part of the APPS generated executable file and it may be included separately on the CD containing the APPS generated executable file. | |
| c. Ensure an electronic copy of the final draft memorandum containing the supervisory auditor's initials and date on the top page, cross-referenced to the working papers, is included in the working paper package. The final draft memorandum should | |

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| include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final memorandum only due to minor administrative changes (spelling, format, etc.) made during final processing. | |
| d. Include an electronic version of the acknowledgement letter in the audit working paper package. | |
| e. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage. | |
| f. Two complete sets of electronic working papers must be prepared. The "original" set should be stored in the working paper package. The "archive" set is to be stored separately from the working paper package on a single session CD-ROM. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed. | |
| g. Verify that electronic files stored on removable media are not corrupted and can be unarchived. | |
| h. Securely enclose the "original" set of electronic files in the working paper package. | |

Pro forma Memo – Contractor is in Compliance with Contract Billing Instructions

MEMORANDUM FOR ADMINISTRATIVE CONTRACTING OFFICER

SUBJECT: Contractor Compliance with Billing Instructions on Contract DAAA01-02-C-0001

As part of our ongoing audit of the [*contractor's name*] billing system, we reviewed the contractor's billing procedures and billings relating to Contract DAAA01-02-C-0001 to determine compliance with the contract billing instructions. Our audit found that the contractor is complying with the contract billing instructions.

Section G of Contract DAAA 01-02-C-0001 specifies that the contractor should identify the following on each public voucher:

1. The contract number;
2. The contract line item number (CLIN) pertaining to the billed cost;
3. The accounting classification reference number (ACRN) pertaining to the billed costs; and
4. Payment terms.

Our audit found that the contractor has adequate billing procedures to ensure that billings on Contract DAAA01-02-C-0001 are in accordance with the above contract billing instructions. We reviewed the contractor's brief of the contract and found that the billing instructions from Section G of the contract were adequately documented. We selectively reviewed public vouchers submitted on Contract DAAA01-02-C-0001 and verified the vouchers were prepared in accordance with the billing instructions included in Section G of the contract.

Please direct any questions regarding this memorandum to Zack Crockett, Supervisory Auditor, at (XXX) XXX-XXXX.

Tory James
FAO Manager

Enclosure 2
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Pro forma Memo – Contractor is in Noncompliance with Contract Billing Instructions

MEMORANDUM FOR ADMINISTRATIVE CONTRACTING OFFICER

SUBJECT: Contractor Compliance with Billing Instructions on Contract DAAA01-02-C-0001

As part of our ongoing audit of the [*contractor's name*] billing system, we reviewed the contractor's billing procedures and invoices relating to Contract DAAA01-02-C-0001 to determine compliance with the contract billing instructions. Our audit found that the contractor is not complying with the contract billing instructions. [*summarize any noncompliances with contract billing instructions identified*] The contractor is not including the accounting classification reference number (ACRN) pertaining to the billed costs on submitted public vouchers as required by Section G of the contract. The contractor agrees with the finding and has implemented procedures to ensure future public vouchers submitted on Contract DAAA01-02-0001 will include ACRN information for the billed costs.

Section G of Contract DAAA01-02-C-0001 specifies that the contractor should identify the following on each public voucher:

1. The contract number;
2. ACRN pertaining to the billed costs;
3. The contract line item (CLIN) pertaining to the billed costs; and
4. Payment terms.

Our audit found that the contractor does not have adequate billing procedures to ensure that billings on Contract DAAA01-02-C-0001 are in accordance with the above contract billing instructions. The contractor does not have adequate procedures to brief contracts to identify billing instructions included in Section G of the contract. We selectively reviewed public vouchers submitted on Contract DAAA01-02-C-0001 and found that the contractor did not include the ACRN pertaining to billed costs as required by the contract.

We discussed the audit results with [*name and title of appropriate contractor representative*] Alison Aulman, Vice-President, Finance, on March 2, 2003. Ms. Aulman agreed with the audit results and took immediate action to improve the contractor's billing procedures and internal controls. The contractor has implemented procedures to brief contracts and document billing instructions included in Section G of the contract. The contractor has also implemented billing system procedures to ensure that future public vouchers will be prepared in accordance with the contract billing instructions. During the next 60 days, we will selectively review public vouchers submitted on the contract to verify that the vouchers include ACRN information as required by the contract terms.

Please direct any questions regarding this memorandum to Zack Crockett, Supervisory Auditor, at (XXX) XXX-XXXX.

Tory James
FAO Manager

Enclosure 2
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